

NE Regional Production, Process, Hot Topics and Bears, oh my! – Part 2

Moderators:

Charley Conkling, *Chief Underwriter | Walker & Dunlop*

Adlana Buck, *Chief Underwriter | Capital One*

Panelists:

Frederick Shaw, *Technical Branch Chief | HUD New York*

Sheila Galicki, *Technical Branch Chief | HUD Boston*

Joseph McNealy, *Underwriting Branch Chief | HUD Boston*

Patrick Dieter, *Senior Underwriter | HUD Baltimore*

Agenda

- Underwriting
 - Valuation (Rick Shaw)
 - Capital Needs Assessments (Sheila Galicki)
 - Relocation (Joe McNealy)
 - Market Discussion (Patrick Dieter)
 - Q&A (All)

Underwriting – Technical Reviews – Valuation

- Appraiser site inspections – any leeway on sampling?
 - <https://www.hudexchange.info/resource/6044/covid-19-questions-and-answers-for-office-of-multifamily-housing-stakeholders/>
- When will HUD start inspecting projects again?
- COVID impact on valuation?
- Reasons for Technical Rejections on Valuation?
- Short Term and/or Variable Tax Abatements



Underwriting – Technical Reviews - Capital Needs Assessments

223(a)(7)

- Waivers – When will they be entertained?
 - Third party 25%-unit inspection per building
 - Lender site inspections
- When can an existing CNA be used?
- What are defined as “routine maintenance” repairs?

<https://www.hudexchange.info/resource/3197/guidance-categorizing-activity-as-maintenance-environmental-regulations-24-cfr-parts-50-and-58/>



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**EXAMPLES OF MAINTENANCE ACTIVITIES vs. REHABILITATION ACTIVITIES
FOR ENVIRONMENTAL REVIEW PURPOSES**

Feature or System	Maintenance Activities ⁴	Rehabilitation Activities ⁵
Site	<ul style="list-style-type: none"> lawn care (litter pickup, mowing, raking), trimming trees and shrubs snow/ice removal neighborhood cleanup application of pavement sealants, parking lot restriping, directional signage or marking for handicapped accessibility repair of cracked or broken sidewalks 	<ul style="list-style-type: none"> new landscaping throughout an area construction of new walkways, driveways or parking areas, or replacement thereof
Building Exterior	<ul style="list-style-type: none"> cleaning and fixing gutters and downspouts repainting previously painted surfaces (including limited wet scraping and low-pressure washing) replacing deteriorated section of siding removal of graffiti 	<ul style="list-style-type: none"> cleaning masonry or stripping painted surfaces by sandblasting, acid wash, or high pressure washing applying new exterior siding
Roof	<ul style="list-style-type: none"> fixing leaks application of waterproof coating to a flat roof replacement of deteriorated flashing in-kind replacement of loose or missing shingles or tiles 	<ul style="list-style-type: none"> complete replacement of roof with new shingles, tiles, roll roofing, membrane, or new metal roof installation of solar panels
Windows and Doors	<ul style="list-style-type: none"> washing windows caulking, weather stripping, re-glazing windows and doors fixing broken windowpane(s), storm window(s) or damaged entry door replacing broken door lock replacing a vandalized entry door to restore security of a building or unit replacing a single severely damaged window to match annual switch out of storm and screen panels 	<ul style="list-style-type: none"> replacement of windows replacement of exterior doors adding storm windows or storm doors
Interior Walls and Ceilings	<ul style="list-style-type: none"> patching or mending cracked plaster patching or fixing holes or cracks in drywall replacing stained ceiling tiles painting or wallpapering 	<ul style="list-style-type: none"> installation of new drywall or paneling installation of new acoustical ceiling installation of dropped ceilings
Flooring	<ul style="list-style-type: none"> cleaning floors stripping wooden floors and resealing installation or replacement of carpeting or vinyl flooring* 	<ul style="list-style-type: none"> installation of new wood floor

* These maintenance items may require purchase of flood insurance if they occur in a Special Flood Hazard Area (SFHA), and costs exceed the standard deductible for the specific type of structure or unit under the National Flood Insurance Program (NFIP).



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Feature or System	Maintenance Activities ⁴	Rehabilitation Activities ⁵
Circulation	<ul style="list-style-type: none"> • in-kind replacement of broken stair treads or balusters • inspection and servicing of elevators 	<ul style="list-style-type: none"> • rebuilding stair or constructing new stair • installation of new access ramp • elevator replacement
Kitchen	<ul style="list-style-type: none"> • replacement of stoves, refrigerators, and microwaves* • replacing cabinet hardware* 	<ul style="list-style-type: none"> • complete or substantial kitchen remodel
Bathroom/Laundry	<ul style="list-style-type: none"> • unclogging sink or toilet • replacing deteriorated toilet in an occupied housing unit* • replacing broken medicine cabinet* • replacing washing machines and dryers* • installation of grab bars 	<ul style="list-style-type: none"> • complete or substantial bathroom remodel
HVAC	<ul style="list-style-type: none"> • servicing and maintenance of mechanical systems • changing air filters • cleaning air ducts • installing or replacing a window air conditioner • replacing a malfunctioning part of a HVAC system like a thermostat * 	<ul style="list-style-type: none"> • installation of new furnace or heat distribution system • installation of central air conditioning
Electrical/Lighting	<ul style="list-style-type: none"> • changing light bulbs • replacing malfunctioning light fixture, electrical switch or outlet* 	<ul style="list-style-type: none"> • major rewiring of building • installation of new electrical service • replacing or moving electrical panels
Plumbing	<ul style="list-style-type: none"> • fixing plumbing leaks* • repairing damage from frozen pipes* • repairing water or sewer connection within existing utility trench alignment • replacing malfunctioning water heater* 	<ul style="list-style-type: none"> • installation of new plumbing system • new water or sewer connection
Security	<ul style="list-style-type: none"> • repair of security alarm systems • boarding up a vacant building with protective plywood • installation of temporary security fencing • installation of security devices needed for an individual health facility patient 	<ul style="list-style-type: none"> • installation of permanent security bollards • installation of new security alarm system
Life Safety	<ul style="list-style-type: none"> • servicing smoke, fire and CO2 detectors • installation of smoke, fire and CO2 detectors 	<ul style="list-style-type: none"> • making substantial physical changes to a building to comply with fire and life safety codes • installing fire suppression system
Pest Infestation	<ul style="list-style-type: none"> • pest inspection/treatment 	

⁴ Categorically Excluded from NEPA and not subject to the related authorities listed in 24 CFR 50.4 and 58.5, unless Extraordinary Circumstances apply pursuant to 24 CFR 50.19(a) or 58.35(c).

⁵ Generally Categorically Excluded from NEPA and generally require review under related authorities listed in 24 CFR 50.4 and 58.5, but an RE or HUD reviewer may make a determination that an Environmental Assessment or Environmental Impact Statement is required due to individual project circumstances.

Underwriting – Technical Reviews - Capital Needs Assessments

223(f)

- Accessibility Issues
 - Older vintage housing stock
 - UFAS Requirements for Federally assisted projects
- What documentation is needed for repairs determined to be “structurally infeasible”?

Underwriting – Technical Reviews - Capital Needs Assessments

Poll Question #1

- What is the most common missing accessibility documentation?



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Underwriting – Technical Reviews - Capital Needs Assessments

- Can there be a difference between Actual Age vs. Effective Age in the Etool?



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Underwriting – Technical Reviews - Capital Needs Assessments

Poll Question #2

- What do you think is the number one reason for return of the Etool to lenders?



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Underwriting – Technical Reviews - Capital Needs Assessments

223(f) - Heavy

- Any best practices to share?

Underwriting – Technical Reviews – Capital Needs Assessments

HUD CA REVIEWERS – TOP 9 TIPS TO INSURE A POSITIVE OUTCOME:

1. Proofread your own documents, before sending it to HUD for review
2. Read the 3rd Party Reports in their entirety. Not just so you can pull the CR and NCR numbers.
3. Submit a quality application that is consistent with the whole Application
4. Follow the MAP Guide and codes for the appropriate application and submit applications with quality images both for photos and plans related to the work needed.
5. Thoroughly explain conditions of the property and provide enough evidence/support
6. Ensure the project CNA eTool is complete, including all the required attachments, prior to submission.
7. Make sure that the eTool is completed in accordance with the MAP Guide
8. Focus on accessibility
9. Hire a licensed architect for accessibility review

Relocation

- What documentation is HUD looking for?
- Is an independent Relocation Specialist required?

Underwriting - Market Discussion

- What are some of the hot and/or emerging markets?
- Any markets oversupplied?
- Where is all of the construction activity?
- How has COVID impacted the evaluation of a market?
- Any common themes or best practices to share with the industry on market analysis?

Concept Meeting Activity FY 2020 – 2021 (First Half)

Location	NC
DC/Baltimore	
DC	2
MD	26
VA	31
DE	1
NY/NJ	
NYC	2
NYC Burbs	5
Buffalo	2
Finger Lakes	2
Pennsylvania	
PHL	3
PITT	1
Other PA	3
Total	78

- DC – 100% Affordable
- MD
 - 35% in Metro DC
 - 30% Baltimore City
 - 25% Baltimore Suburbs
 - 20% LIHTC NC
- VA
 - 40% Hampton Roads
 - 25% Richmond Suburbs
 - 20% Shenandoah
 - 15% NoVa
- NY
 - Manhattan & Jersey City
 - 2 in NJ Burbs; 1 each in Westchester, LI, CT
- PA
 - PHL – 2 in City; 1 in Suburbs
 - Other: Harrisburg, Lancaster, Poconos

Regional Household Growth - Metro DC 2014 - 2019

Jurisdiction	Total HH Growth	% HH Growth	Renter HH Growth	% Renter HH Growth	New Renter Ratio	Owner HH Growth	% Owner HH Growth
District of Columbia	16,971	6.3%	9,802	6.3%	57.8%	7,169	6.4%
Montgomery	8,342	2.3%	7,336	6.1%	87.9%	1,006	0.4%
Prince George's	6,228	2.0%	2,905	2.5%	46.6%	3,323	1.7%
Frederick	5,267	6.0%	550	2.5%	10.4%	4,717	7.3%
Charles	4,251	8.1%	1,555	13.5%	36.6%	2,696	6.6%
Maryland	24,088		12,346		51.3%	11,742	
Loudoun	18,590	16.9%	2,852	11.2%	15.3%	15,738	18.6%
Arlington	10,768	11.2%	8,173	15.4%	75.9%	2,595	6.0%
Prince William	7,263	5.4%	(41)	-0.1%		7,304	7.5%
Fairfax	4,707	1.2%	2,335	1.9%	49.6%	2,372	0.9%
Alexandria City	4,682	7.1%	2,275	6.0%	48.6%	2,407	8.6%
Stafford	4,312	10.1%	654	6.5%	15.2%	3,658	11.2%
Fauquier	1,400	6.0%	588	12.4%	42.0%	812	4.4%
Culpeper	635	3.9%	262	6.0%	41.3%	373	3.1%
Manassas City	624	5.1%	30	0.7%	4.8%	594	7.5%
Falls Church City	527	10.6%	256	12.6%	48.6%	271	9.2%
Warren	327	2.3%	(208)	-5.8%		535	5.0%
Manassas Park City	115	2.5%	(51)	-3.1%		166	5.7%
Fairfax City	97	1.1%	37	1.5%	38.1%	60	1.0%
Fredericksburg City	913	9.3%	657	10.4%	72.0%	256	7.2%
Spotsylvania	2,156	5.1%	(340)	-3.4%		2,496	7.8%
Virginia	54,047		17,162		31.8%	36,885	
DC Metro Total	95,106		39,310		41.3%	55,796	

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Richmond City	4,388	5.1%	2,598	5.3%	59.2%	1,790	4.9%
Chesterfield County	9,966	8.7%	3,324	12.3%	33.4%	6,642	7.5%
Henrico County	4,643	3.7%	3,219	7.2%	69.3%	1,424	1.8%
Hanover County	1,946	5.3%	262	4.0%	13.5%	1,684	5.5%
Powhatan County	675	7.0%	(153)	-13.1%		828	9.8%
Petersburg City	650	5.2%	1,121	16.2%		(471)	-8.4%
Hopewell City	450	5.1%	772	18.6%		(322)	-6.9%
Goochland County	294	3.6%	268	26.3%	91.2%	26	0.4%



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Construction Activity

NC & Sub Rehab as of March 2021

Location	New Construc	Sub Rehab	Total	%
DC Metro				
District of Columbia	3	4	7	12%
Maryland	4	3	7	12%
Virginia	2	0	2	3%
West Virginia	1	0	1	2%
Maryland (Non-DC)				
Baltimore City	2	3	5	8%
Baltimore Suburbs	3	3	6	10%
Rural Maryland	0	2	2	3%
Virginia				
Richmond Metro	2	1	3	5%
Shenandoah	4	0	4	7%
Hampton Roads	5	1	6	10%
New England				
Connecticut	1	4	5	8%
Maine	0	2	2	3%
Massachusetts	0	1	1	2%
New Hampshire	1	0	1	2%
Mid-Atlantic				
New Jersey	2	3	5	8%
Pennsylvania	1	2	3	5%
Total	31	29	60	

DC Correction Phase

All data as of 1Q 2021	Downtown DC Submarket	H Street- NoMa Submarket	Bridgewood- Ft. Totten Submarket
Stabilized Vacancy	10%	12%	8%
Rent Growth (YOY)	-10%	-10%	-7%
Absorption (T-12 Months)	-1,381	225	242
Avg Occupancy on Delivery	10%	10%	26%
Units under Construction	299	4,744	1,750

Sources: CoStar; REIS, HUD

Questions?